

[By Peter Schroeder](#)

Democrats have been fighting a years-long uphill battle to protect the Dodd-Frank financial reform law. Now, thanks to JPMorgan Chase, they think they might have the edge back.

When the banking titan announced Thursday evening that one of its traders' moves had, in six weeks, lost the firm at least \$2 billion, backers of the Wall Street overhaul could not have asked for a better example to make their case, or a better time.

"It confirms our view that there needs to be regulation," said Rep. Barney Frank (D-Mass.), the ranking member of the House Financial Services Committee. "It shows that if it can happen to them, it can happen to anybody."

Rep. Peter Welch (D-Vt.) said the gigantic loss should be a wake-up call, after banks have been bringing pressure to bear for softer rules.

"How many times do we have to be hit in the head with a financial sledgehammer to wake up and realize we've got to take action?" he said. "The big banks have been fighting Dodd-Frank tooth and nail. ... Regrettably, the banks have largely been successful."

When Dodd-Frank was signed into law nearly two years ago in the wake of the financial crisis, it was sold as one of the most sweeping overhauls of the financial industry in history.

But so far, implementation of the law has been slow going, amid intense lobbying from the financial sector and regular GOP critiques — both on Capitol Hill and the campaign trail. Regulators have not received the budget boosts the White House says is needed to implement the bill, some key pieces have been delayed by regulators, and bills chipping away at the law are making their way through the GOP-led House (although they face a steep climb in the Democrat-led Senate).

With several key components of the law still being finalized by regulators, Democrats are hoping JPMorgan's example can tip the scales back their way.

In particular, lawmakers are hoping JPMorgan's mess will lead to a stronger version of the "Volcker Rule."

The contentious piece of the law, named after former Fed Chairman Paul Volcker, is intended to prevent banks from making risky trades for their own profit, and should be finalized by regulators in the coming months.

After issuing a lengthy proposed rule, regulators were swamped with thousands of comments from the financial industry pushing to make it as flexible as possible, even as backers of a strong rule decried it as loaded with loopholes.

JPMorgan maintains that their doomed trade would not have been restricted by the rule, as it was a hedge against risk, but that has not stopped the rule's strongest backers from using the headline to make their case.

"This does come at a time when the rules are being finalized, regulators have absolutely no excuse to create the loophole that they had in the draft rule," said Sen. Jeff Merkley (D-Ore.), who authored the original provision with Sen. Carl Levin (D-Mich.).

As the financial crisis that helped push Dodd-Frank through Congress fades from memory, Democrats have worried the impetus for tough regulations could fade as well. Treasury Secretary Timothy Geithner warned against "financial crisis amnesia" in March as the reform law came under fire. Now, Democrats see echoes of the meltdown in the JPMorgan news — Merkley called the firm's explanation "an exact description of the kind of risks taken leading up to the financial crisis."

Welch has said he plans to call for hearings on JPMorgan's trading failure. But on Friday, a

Republican beat him to the punch, as Sen. Bob Corker (R-Tenn.) called on the Senate Banking Committee to hold a hearing "as expeditiously as possible" on the losses.

It's not just the fact that a Wall Street bank suffered a hefty loss based on a bad move that is buoying Democrats, but the particulars of the situation. This wasn't just any financial institution, it was JPMorgan, which emerged from the financial crisis relatively unscathed compared to its counterparts, and as the nation's largest bank. While the firm did participate in a \$25 billion bailout from the federal government during the crisis, it paid back the amount back quickly.

Perhaps more importantly, the trading disaster happened on Jamie Dimon's watch. As the chairman of JPMorgan, Dimon served as one of the most visible faces of the financial industry, and also as one of its most vocal critics of Dodd-Frank.

Dimon caused a stir back in June, when he publicly challenged Federal Reserve Chairman Ben Bernanke on the glut of new restrictions facing the financial sector and what it might mean for the economic recovery.

Dimon is a Democrat, and at one point was rumored to be on the short list to serve as Treasury secretary under President Obama.

But that did not stop him from jabbing at Volcker earlier this year, saying in February on Fox Business that he "doesn't understand capital markets. He has proven that to me."

Now, Democrats are hoping they can pull out one of the sharpest thorns in Dodd-Frank's side.

The loss "destroyed his credibility," said Welch. "That's a big blow to the critics, because he was their most prominent, most respected, and most successful critic."

"I don't think Paul has lost \$2 billion recently," said Frank. "He's going to have to stop making cracks about how Paul Volcker doesn't understand the system."